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The Investment Engineers

COUNTRY SUSTAINABILITY RANKING

Update – December 2021

Country Sustainability: Finland takes the lead

Sustainable Investing Expertise by ROBECOSAM

RobecoSAM
For over 25 years, RobecoSAM has been at the forefront of sustainable investing. Today, it is Robeco's sustainability ingredient brand, used to designate selected SI intelligence and research.

RobecoSAM-labelled strategies guarantee a state-of-the-art impact approach. This is true of all our sustainable thematic strategies but applies equally to our equity and fixed income impact strategies. All have been designed to have a positive, measurable impact on the environment and society and to contribute to the UN's 17 Sustainable Development Goals (SDGs).

More than two decades of sustainable investing research have equipped us with the tools and the unique expertise needed to define financially-material ESG information, integrate it into a wide range of investment products and measure its impact. RobecoSAM designates Robeco's range of rankings of both companies and countries in terms of their sustainability to help investors make responsible choices.

Sustainable Investing Expertise by ROBECOSAM

About this report

This semi-annual report provides a succinct summary and analysis of the environmental, social, and governance (ESG) profiles of 150 countries around the globe. It builds on the results of the proprietary Robeco Country Sustainability Ranking (CSR) tool which collects and analyzes the relevant ESG data via a structured and comprehensive framework to calculate an overall country score.

The resulting scores offer insights into the investment risks and opportunities associated with each country and provide investors with a better frame of reference for making comparisons among countries and regions from a risk/return perspective.

The summary outlined here complements findings gained from a more traditional country risk assessment and is particularly focused on integrating long-term perspectives. Please see the Appendix for further details regarding data indicators and methodology.

For a brief methodology overview or to request more comprehensive information, please visit https://www.robeco.com/en/key-strengths/sustainable-investing/country-ranking/

Author's note: ESG data contained in this report is as of October 2021, unless otherwise indicated. Commentaries, summaries and analyses are as of December 3, 2021.

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ESG Scores in context

Covid-19 with adverse and complex implications

Tentative hopes of a foreseeable end to the coronavirus pandemic have been dashed again with new waves of Covid-19 raging in many parts of the world and the recent detection of the possibly alarming Omicron variant. With the world still in the pandemic's grip, the full magnitude of its effects will still not be known for some time. Already obvious at this stage, however, are the devastating impacts in various dimensions of sustainable development: economic, environmental, social and political. In a wide range of areas one can observe a reversal of progress on poverty reduction and other areas of human development that have been achieved in recent years.

Covid-19 has revealed and worsened some enduring fault lines such as underlying disparities in education, health care, social welfare as well as extreme inequality.[1] Not surprisingly, the less developed and poorer countries are suffering the most as they have much less economic and financial means available to mitigate the dire consequences and shelter their citizens from economic hardship.

One worrying trend is also the growth of social strife, political tensions and authoritarian tendencies. Covid-induced humanitarian and economic stress has increased disparities and eroded social cohesion. As a result, widespread discontent has bubbled up, with adverse ramifications for countries' economic and sustainability performance. Moreover, the pandemic provided good justification for governments to tighten their grips on power by restricting fundamental freedoms through the imposition of states of emergency, oppression of critics and free media. In other words, an attack on the core principles of free societies and key elements of governance and prosperity.

The trend towards increased authoritarianism is not simply the result of the pandemic but rather a continuation of a longer-term trend that has been described in previous updates. As noted in the most recent report from the International Institute for Democracy and Electoral Assistance, for the fifth consecutive year, more countries are moving towards authoritarian-style governance rather than democratic rule. Moreover, even established democracies have increasingly been adopting authoritarian tactics, pointing to a decline in democratic quality.[2] Well-known examples of backsliding include, among others, Hungary, Poland, Slovenia, Turkey, Brazil, Mexico, Venezuela and the United States, with the most drastic reversals in form of military coups in Myanmar and Sudan.

A need for action also in other ESG themes

However, while acute and grave, the pandemic is not the only global challenge that needs to be addressed. Rising inequality, expanding poverty, climate change and the loss of biodiversity are equally important. Indeed, though the threat of the latter two may seem distant, their impact is already being felt. Climate-related weather extremes are occurring more frequently and becoming more devastating. Despite some progress at the recent COP26 summit, policies are still insufficient for keeping the world on a trajectory below 2°C, indicating the urgent need for further action.

While somewhat overshadowed by carbon emissions, biodiversity is also an ESG feature that should no longer be ignored, especially given its critical role in human health and economic well-being. This was the main topic discussed at the (virtual) UN Biodiversity Conference which took place in October, though with much less media attention. Part two of that event is scheduled for late spring in Kunming, China, and is aimed at reaching an agreement on an ambitious and measurable post-2020 framework to end biodiversity loss.

1. For a more detailed analysis, see Robeco: "SI Opener: How Covid-19 is worsening inequality", 23 September 2021 at https://www.robeco.com/ch/en/insights/2021/09/si-opener-how-covid-19-is-worsening-inequality.html
2. International Institute for Democracy and Electoral Assistance: "The Global State of Democracy 2021 Report: Building Resilience in a Pandemic Era," November 2021

Nordics still in the lead with Finland as new frontrunner

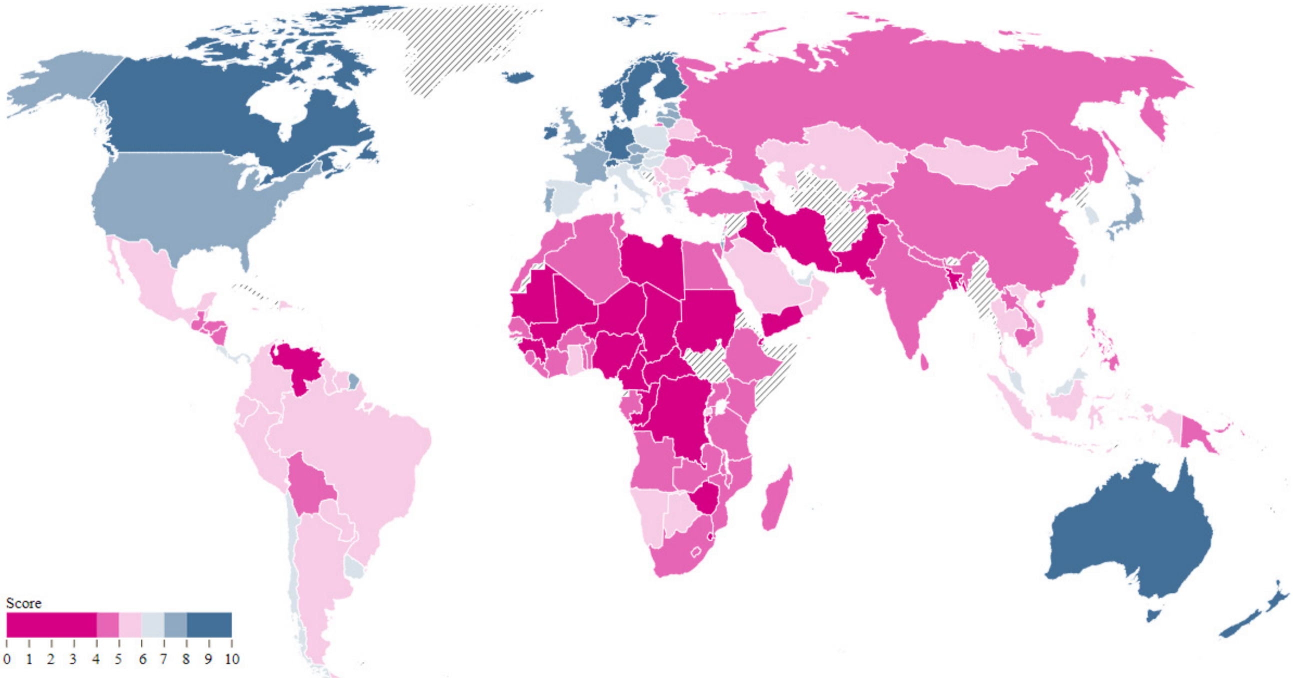
As of Autumn 2021, the Scandinavian countries continued to sustain their global sustainability leadership. With an ESG score of 8.91, Finland tops the current ranking for the first time, ahead of its Nordic neighbours Sweden, Denmark, Norway and Iceland. Slight declines in the scores for most governance criteria and inequality caused Sweden to fall back to second place. Switzerland follows in sixth place with a score of 8.53, just ahead of New Zealand – the best-ranked non-European nation. The top-ranking group (with an ESG score of 8.0 or above) includes 13 countries, ten of which are located in Europe. Apart from New Zealand, only Australia and Canada made it into the list of high-performing countries (see Figure 1). Despite disparities with respect to carbon emissions and climate policies, taken in the aggregate, all of these economies enjoy robust and well-balanced sustainability profiles.

At the other end of the ranking is the group of 21 countries with scores below 4.0. With the exception of Iraq, Libya and Venezuela, all are developing and emerging market economies that belong to the low- and lower-middle income countries.[3]

Of the 23 developed countries covered by our analysis, 20 belong to the two top-tier ESG categories (scores of 7.0 or higher). Only Greece, Italy and Spain are part of the medium-performing category (scores between 6.0 and 7.0). A noticeable anomaly is the US, where an erosion of the ESG score visible in the data since 2005 accelerated during the Trump presidency resulting in its elimination from the top 20. From a score of 7.64 and rank of 18 at the start of the Trump administration, the country has fallen to 7.37 (rank 22) in the spring 2021 update, displaying a weakening performance in all three ESG dimensions.

In the meantime, the new administration of President Joe Biden has initiated decisive changes across multiple policy areas that are also affecting different ESG facets, with climate policies as a notable example. This policy reorientation has prevented a further decline in the country's sustainability score since April and gives reasonable grounds for expecting a gradual reversal of the deteriorating trend going forward.

Figure 1 | The global country sustainability ranking map



Source: Robeco
Score range from 1 (worst to 10 (best). CSR Scores as of October 2021

3. Iraq and Libya are classified as upper-middle income economies. Venezuela was previously classified as an upper-middle income country but is now temporarily unclassified due to the lack of available data.

Estonia and Singapore (both with an overall score of 7.95) now share the top position as leading sustainability performers within the emerging market (EM) universe. Estonia is now the best ranked EM (14th), just one place ahead of former EM frontrunner Singapore (15th), followed by the EU member states the Czech Republic, Lithuania, Malta, Slovenia and Latvia.

Out of the group of 127 emerging and developing economies, only nine made it into the second-best category (scores between 7.0 and 8.0). BRICS[4] and other emerging heavyweights, such as Indonesia and Mexico, continue to display disappointing sustainability performance, especially considering their economic potential.

Figure 2 | Top five and bottom five sustainability performers

	Country	Score	Governance 50% weight	Social 30%	Environmental 20%	Score Δ	Rank Δ
1.	Finland	8.91	8.53	8.50	9.63	+0.07	1 ↗
2.	Sweden	8.88	8.33	8.93	9.36	-0.05	1 ↘
3.	Denmark	8.84	8.45	9.07	8.66	+0.07	1 ↗
4.	Norway	8.82	8.36	9.04	8.83	-0.02	1 ↘
5.	Iceland	8.63	7.93	9.05	9.01	-0.04	0 —
97.	South Africa	4.75	5.72	3.58	4.30	-0.04	1 ↗
115.	Egypt	4.33	4.28	4.15	4.99	+0.03	3 ↗
116.	India	4.31	5.35	3.87	2.65	-0.03	1 ↘
140.	Nigeria	3.56	3.87	3.22	3.76	-0.09	0 —
142.	Pakistan	3.51	4.04	3.78	2.24	+0.02	1 ↗
145.	Djibouti	3.37	3.64	3.64	2.81	-0.02	0 —
146.	Chad	3.31	3.24	3.41	3.86	+0.07	0 —
147.	Libya	3.28	2.87	3.37	4.71	+0.1	0 —
148.	Central African Republic	3.27	2.84	3.44	4.62	+0.22	1 ↗
149.	Sudan	3.19	3.06	3.69	3.32	+0.03	1 ↘
150.	Yemen	2.22	2.20	1.93	3.51	-0.01	0 —

Data source: Robeco, Country sustainability scores as of October 2021.
Data note: The five countries framed in the middle of the chart designate the bottom-five ranked emerging market countries within the investable universe, the top-50 developed and emerging economies in terms of nominal GDP.

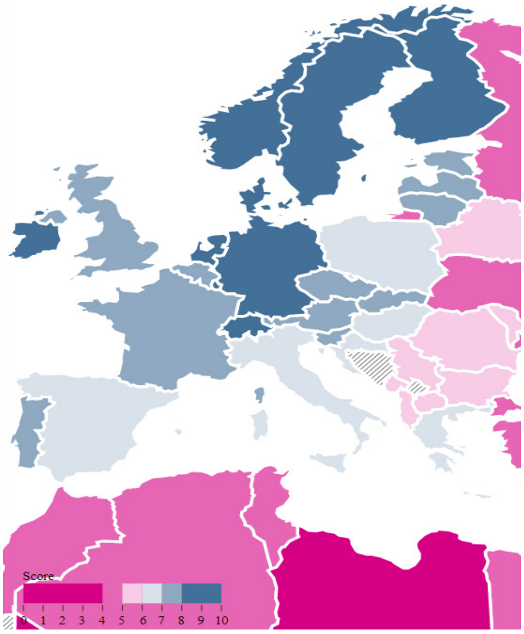
Figure 2 displays the wide sustainability performance contrast between those at the top and bottom of the ranking. The countries at the bottom depend on which universe is being counted. South Africa, Egypt, India, Nigeria and Pakistan - make up the lowest-performing countries when only considering the investable universe (defined as the top 50 economies in terms of nominal GDP in which one can invest). Chad, Libya, the Central African Republic, Sudan and Yemen comprise the bottom-five when the entire universe (150 countries) is assessed. Unsurprisingly, all represent highly fragile and dysfunctional states in Africa and civil war-affected Yemen on the Arabian Peninsula.

4. Brazil, Russia, India, China & South Africa.

North-South divide in Europe

The sustainability landscape in Europe displays a distinct pattern, with Northern and Central European economies clustering at the top of the ranking while Southern European peripheral countries hover in the middle of the ESG score range (see Figure 3). In addition, the map reveals a gap in ESG profiles between the Western and Eastern parts of the continent, with Eastern European countries grouped mostly in the middle ESG segment. At the bottom lie the worst performers comprised mostly of the Balkan nations, including EU member states Bulgaria and Romania. After having gained access to the bloc, the progress of these latter two has slowed considerably, especially in terms of governance, where reform dynamics have slackened in recent years.

Figure 3 | Sustainability ranking in Europe



Source: Robeco. Scores as of October 2021.

Movers and shakers

Figure 4 shows the countries with the biggest gains or losses in ESG scores over the preceding six-months and three-year observation periods. As in Figure 2, the graph does not cover all countries but is limited to the universe of the larger economies. Hong Kong still leads the list of poor performers when considering the three-year period. This is mainly the result of China's increasing interference in the territory as already described in previous updates.

Given their dysfunctional institutions and currently frayed political landscape, it is not surprising to find Nigeria, Turkey and Argentina within this group. All three are confronted with deep economic, social and political problems with little hope for turnaround. In Argentina and Nigeria, these shortcomings have deepened further throughout this year, causing them to cede more losses over the past six months as well. More surprising might be the appearance of Canada which has seen scores for corruption, political risk, income inequality and poverty lowered over the past three years. This reflects a more volatile political environment as well as social issues that have become more visible as a result of Covid-19.

In the short-term, Brazil, France and India round out the countries with significant score deteriorations. Over the course of the year, Brazil's ESG score has continued its long-term downward slide. It has been badly hit by Covid-19, which has accentuated several critical conditions in the social area (above all insufficient access to health care, education and very high inequality). Moreover, Brazil has suffered from President Bolsonaro's populist and increasingly authoritarian policies, an erosion of institutions and personal freedom, as well as higher political risk. These are all reflected in lower scores for the governance and social spheres, causing its overall ESG score and country rank to decline further to a mediocre 5.31 and 70th place globally through October 2021. Detailed commentary on France and India can be found in the respective country-specific paragraphs (pp.11-12).

On the winner's side over the three-year period, Taiwan stands out as the biggest advancer in terms of overall ESG score. Undeterred by China's recurrent intimidations, it has been able to further reinforce its governance structures, in particular the rule of law, government effectiveness and, above all, innovation, not least reflected in the country's vital importance in semiconductor manufacturing. Stronger governance has been sufficient to compensate a setback in income and economic inequality.

Aside from South Korea, Saudi Arabia and the United

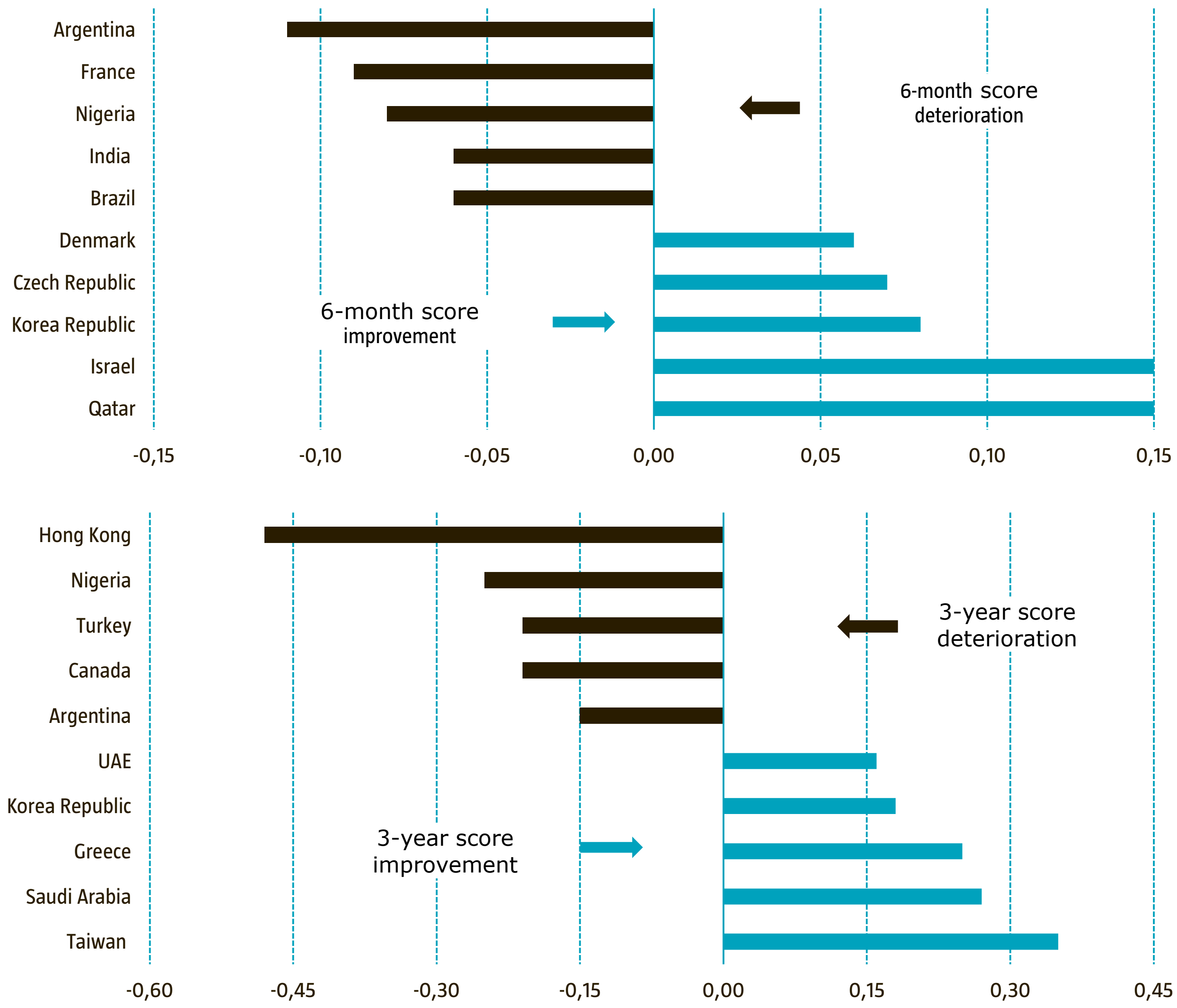
Arab Emirates appear among the positive movers. The Saudi Kingdom's improved standing stems primarily from an increase in the retirement age for women, which positively impacted gender equality and aging indicators, as well as some other tenuous reforms for day-to-day life (see Country Sustainability Report, August 2021). However, the country still displays grave deficiencies regarding inequality, personal freedom and human rights. The advance of the UAE is mainly due to progress across economic globalization, environmental performance and social inequality based on assessments in the Women, Business & Law Index. Ranked 33rd with a score of 6.93, the UAE remains the best-ranked Gulf Co-operation Council (GCC) country.

South Korea has made it to the list of winners for both observation periods. Progress has been made in all three ESG dimensions, with government effectiveness, control of corruption, income distribution and environmental performance as key drivers. One notable tender point relates to political risk, due to recurrent tensions with an unpredictable North Korean regime. Still among the positive movers is Greece, which continues to benefit from structural reforms undertaken in recent years that have enabled gains in almost all governance and social criteria, offsetting weaker performance in the environmental dimension.

Israel and Qatar recorded the biggest advances in ESG scores over the past six months. In the case of Qatar, the increase results mainly from an upward revision of the retirement age (which lowers fiscal outlays), improved government efficiency and rule of law. Ahead of the FIFA Soccer World Cup in 2022, labour laws for immigrant workers have been reformed, where effective March 2021, migrants now receive a minimum wage. However, an earlier promise to abolish the controversial "kafala" sponsorship system has not been fully implemented, and it remains to be seen whether these reform intentions will survive past next year's sporting event.

Israel owes its upgrade primarily to better assessments for human rights and economic decline & poverty indicators from the Fund for Peace as well as an improved political risk score from Euromoney Country Risk. The advance in these areas was sufficient to offset a slump in corruption, innovation and regulatory quality. Last but not least, Denmark and the Czech Republic improved their standings in sustainability performance. Both showed better scores for corruption, political risk and the GINI coefficient, whereas, the Czech Republic, also scored higher for government effectiveness

Figure 4 | Largest gains and losses in ESG scores in the short- and medium term



Data source: Robeco; data assessed as of October 2021

Data note: The chart displays the largest score gains and losses for countries within the investable universe which contains the top-50 developed and emerging economies in terms of nominal GDP.

Special country reports

Finland as new sustainability leader

Finland has always been among the leading sustainability performers and has now seen its gradual but steady ascent during the past few years crowned by reaching the top in Robeco's country sustainability ranking. It displays a very strong and balanced sustainability profile that is superior to its EU peers, as visible from a comparison with the EU average scores for all 15 ESG criteria (see Figure 6). The only notable weakness is on the aging indicator. The share of its population at or approaching retirement is growing faster than the share of younger, working-age individuals, which could restrict the country's future growth potential.

In contrast to many other countries, Finland has also been successful at containing the Covid-19 pandemic and its ensuing economic fallout. In this crisis phase, the country has benefitted from robust state institutions and policies that have traditionally placed a high value on a strong welfare state. Thanks to these policies, Finland has also been ranked first in the annual "Sustainable Development Report 2021" that is prepared by experts from the UN's Sustainable Development Solutions network (SDSN) and the Bertelsmann Stiftung.[5]

Finland's strongest ESG pillar is the environment, and its respective score (9.63 on a scale of 1 to 10) is by far the highest of all countries. This remarkable performance is the result of effective environmental protection policies aimed at reducing pollution, promoting nature conservation and safeguarding biodiversity. Finland is also a leader in the energy transition from fossil fuels to more sustainable energy sources. In 2020, renewables accounted for 39.3% of total energy supply according to the IEA.[6] Fossil fuel CO_2 emissions still amounted to 7.29 t CO_2/capita/year in 2020, above the equivalent level for the EU-27 (5.91). However, this represents a reduction of 40% from its 2010 level, and the country has set a high bar in climate action and is committed to achieving carbon neutrality already by 2035.

Figure 6 | Finland's sustainability performance in comparison with EU peers

Data source: Robeco

Data note: The European Union consists of 27 countries.

5. Sachs, J., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. (2021). The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021. Cambridge: Cambridge University Press. DOI 10.1017/9781009106559
6. It is worth noting that Finland's share of nuclear energy reached 20.3%, according to IEA's latest figures.

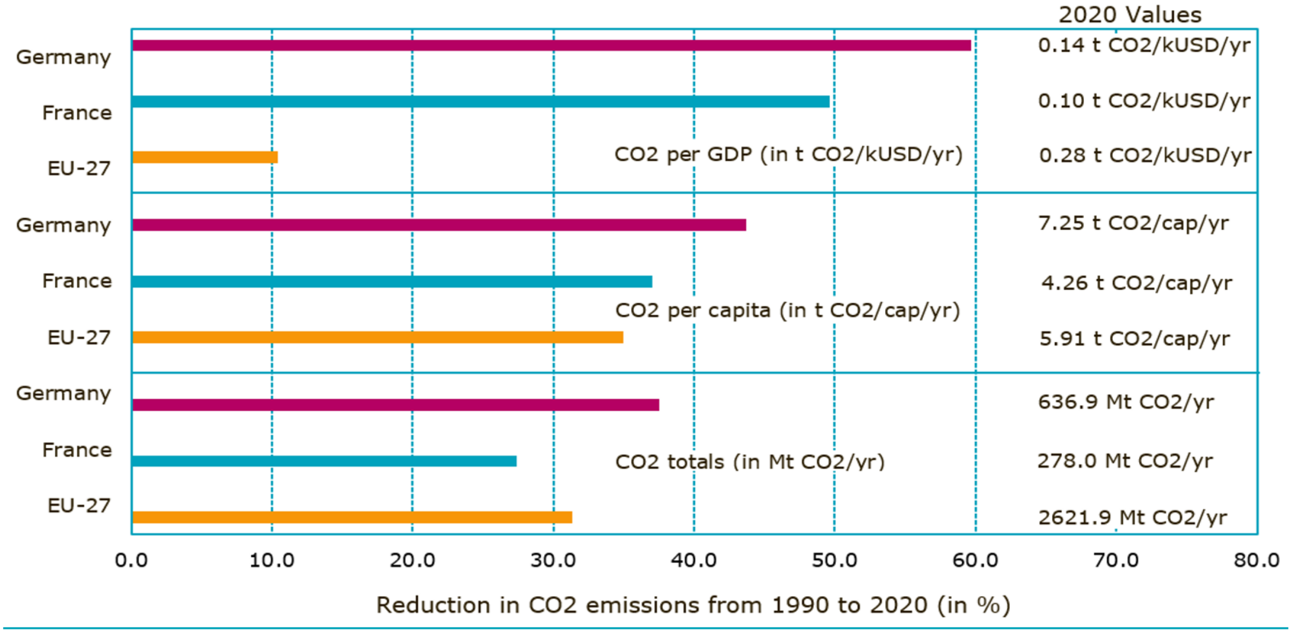
Germany's ambitious climate policy agenda

The coalition agreement of Germany's new "traffic light" government,[7] has set an ambitious agenda aimed at combatting climate change, modernizing the economy and infrastructure, protecting social welfare and strengthening security. It also shows a readiness to adopt more flexible fiscal policies. A bold climate policy for bringing Germany onto a 1.5°C path is the cornerstone of the alliance. Key measures include coal phase out by 2030, a rapid expansion of renewables in the electricity sector (to a share of 80% by 2030), increasing electric vehicle sales, a phase out of gas for power by 2040 and setting a minimum carbon price of EUR 60 per ton. A newly created "super" Climate and Economy Ministry, to be headed by Robert Habeck, co-chair of the Green Party, should facilitate the implementation of these measures.

Climate change has been a major concern this year after the country was hit by its worst climate-related disaster in recent years in the form of catastrophic floods in the region close to the Belgian border. However, even before these events, environmental and climate protection had already been a high priority on the German political agenda. As a result, it has been able to achieve a far larger reduction in CO_2 emissions over the past 30 years when compared to the EU average and also displays a more favourable energy mix (see Figures 7 and 8). While France's CO_2 emission levels are still lower, this is largely due to its reliance on nuclear energy. Germany's environmental policy efforts have also allowed the country to keep its environmental score stable during the past few years. However, it has shown a slight deterioration in governance and social performance resulting in a moderate decline in its overall ESG score from a peak of 8.19 in early 2016 to 8.03 at present, earning it a rank of 13th globally.

The increasing fragmentation of political forces – reflected in the decline of the traditional centrist CDU and CSU parties and the center-left SPD – has certainly contributed to the observed gradual increase of political risk and instability. Though policy-making is unlikely to become easier, the planned welfare agenda may enable progress across many social indicators. However, while all targets in the new policy agenda appear reasonable, they are also very costly, and it remains to be seen to what extent they can be implemented given the self-imposed limits of Germany's fiscal rules.

Figure 7 | Development of CO_2 emissions 1990 – 2020: France & Germany vs EU-27

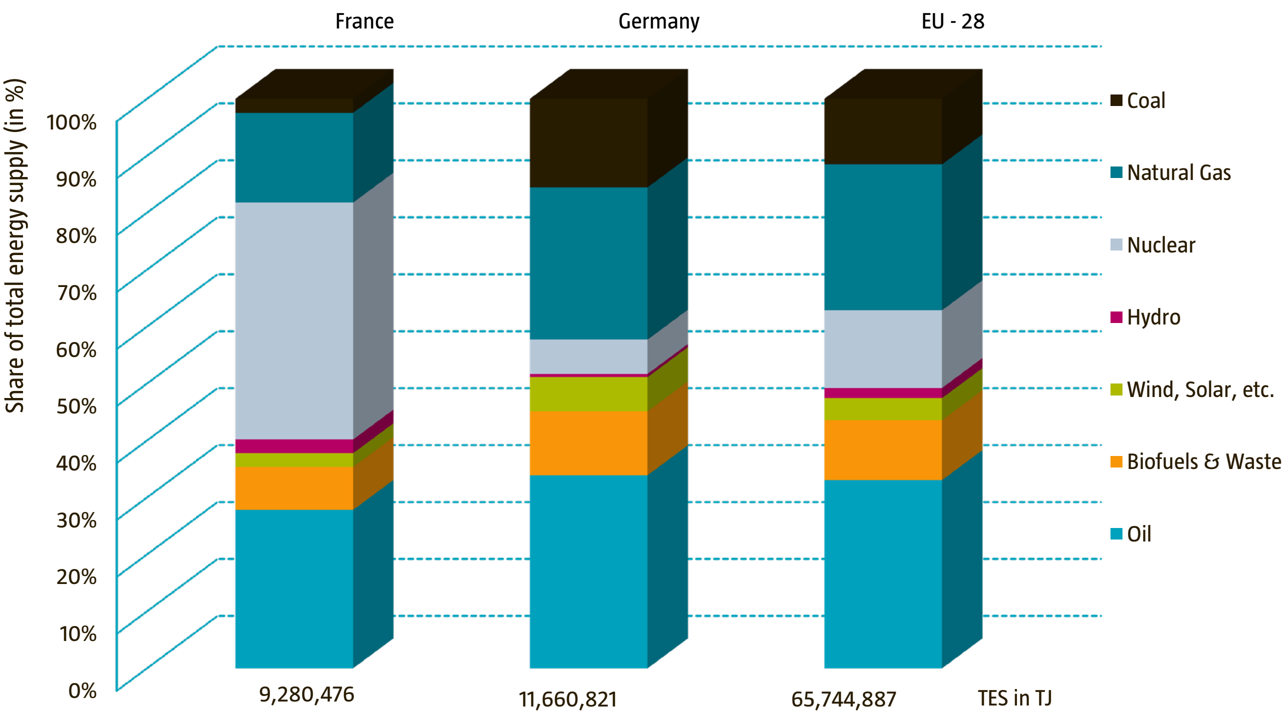


Data source: EDGAR – Emissions Database for Global Atmospheric Research

Data note: The bars show the reduction in CO2 emissions from 1990 to 2020 in %; the 2020 CO2 per capita emission level is shown in the column on the right.

7. The "traffic light" coalition comprises center-left Social Democrats (SPD), environmentalist Green Party (Grünen) and the business-focused Free Democrat Party (FDP).

Figure 8 | Total energy supply (TES) by source: France & Germany vs EU-28



Data source: International Energy Agency
Data note: TES (Total Energy Supply) figures are in TJ (Tera-Joules). For France and Germany, the data is of 2020, for the EU-28 of 2019.

France continues to rely on nuclear energy

France has had a pioneering role in the energy transition and has produced a relatively low level of emissions compared with similar economies. In 2020, CO_2 emissions reached 4.26 t CO_2/capita/year, one of the lowest levels among industrialized countries and well below the corresponding EU-27 average of 5.91 (see Figure 8). The country is obviously benefitting from decarbonized electricity production to which nuclear power contributes around 70%. However, according to the IEA, in order to keep itself on track for net zero by 2050 and to remain aligned with the EU-wide goal of reducing emissions by 55% through 2030, France needs to step up its efforts to increase energy efficiency, expand the share of renewables and renew its nuclear power fleet.[8]

In mid-November, President Emmanuel Macron, in fact, announced plans to build new nuclear reactors in order to meet its climate goals, to lessen its dependence on foreign countries for energy supplies and to keep energy prices under control. It is noteworthy that his announcement was made in times of soaring energy prices, economic concerns and also in view of the rapidly approaching presidential election in April 2022. Indeed, in 2018, the country's environmental policy already sparked a political crisis for the government when the so-called "gilets jaunes" (yellow-vest movement) fiercely opposed the implementation of a new green fuel tax.

Social protests have continued throughout this year, albeit at a much lower scale and mostly related to Covid-19 restrictions. As in many other countries, the pandemic has left its negative marks in areas such as inequality, poverty, social fabric and security situation with the adverse impact now becoming visible in lower scores for these respective indicators. The yellow-vest protests have also hampered Macron's reformist agenda, a major factor in a deteriorated assessment for regulatory quality in the 2021 Worldwide Governance Indicators; France fell from 1.44 in 2019 to 1.20 in 2020 on a scale of 2.5 (best) to -2.5 (worst). Overall, its sustainability score has fallen by 0.10 since spring to

8. International Energy Agency (IEA): 2021 Energy Policy Review for France, 30 November 2021.

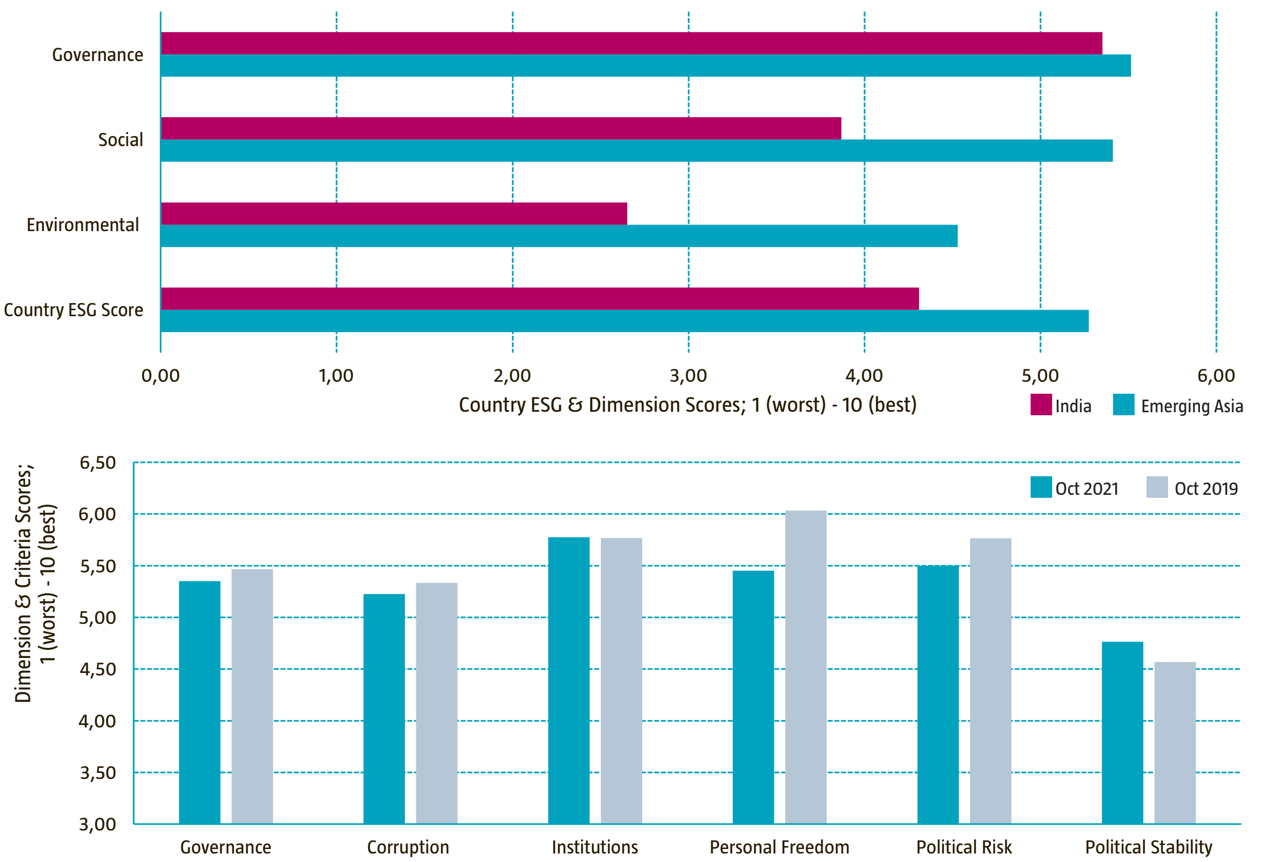
7.48 at present, equivalent to a rank of 19 (down by one position from April this year).

Modi's agenda a potential threat to India's democracy

With his landslide victory in the May 2019 election, Prime Minister Narendra Modi has strengthened his grip on power and has reinforced his Hindu nationalist and illiberal policy agenda. Modi revoked Kashmir's semi-autonomous status, imposed a controversial anti-Muslim citizenship law, continued to crack down on critics and tolerated Hindu nationalist violence. The government's Hindu nationalist posture has also forced it to take a harsh stance in foreign policy, where India is faced with important foreign policy challenges, including a tense relationship with Pakistan and a delicate rivalry with China. Modi's increasingly authoritarian position could be a threat to democracy and risks undermining governance – still a relative strength in India's ESG profile (see Figure 9). Moreover, it has also resulted in a drop from "Free" to "Partly Free" status in the new "Freedom in the World 2021" report by Freedom House.[9]

As visible from Figure 9, India's biggest sustainability deficiencies – also when compared to its Asian peers – are in the social and environmental spheres. Despite some important social reforms, India is still plagued by pervasive poverty, a pronounced gender gap, large disparities in income and access to public services such as education and healthcare. Missteps in handling the Covid-19 crisis contributed to a devastating second wave which is not only creating a prolonged health crisis but also likely to result in greater poverty and inequality. As a result, the scores for the different social criteria will remain under downward pressure for the time being.

Figure 9 | India's governance profile suffering from Modi's nationalist policies



Source: Robeco
Data note: Emerging Asia includes 18 developing and emerging economies in East, South and South-East Asia.

9. Freedom House: "Freedom in the World 2021 – Democracy under Siege".

The environmental situation is equally poor, with insufficient sanitation and drinking water, inadequate waste management and alarmingly low air quality as the main deficiencies. These are reflected in weak scores for the environmental pillar and also appear in India's very inferior ranking in the Environmental Performance Index (rank 168 out of 180 countries).[10] In mid-November, India's capital went into a partial lockdown due to toxic smog, indicating an urgent need to combat air pollution. At COP26, India has agreed to phase down unabated coal power and announced its decision to be net zero by 2070. In this context, it is good news that in November, Germany announced EUR 1.2 billion in new commitments to India to support the country's energy transition and its fight against climate change.

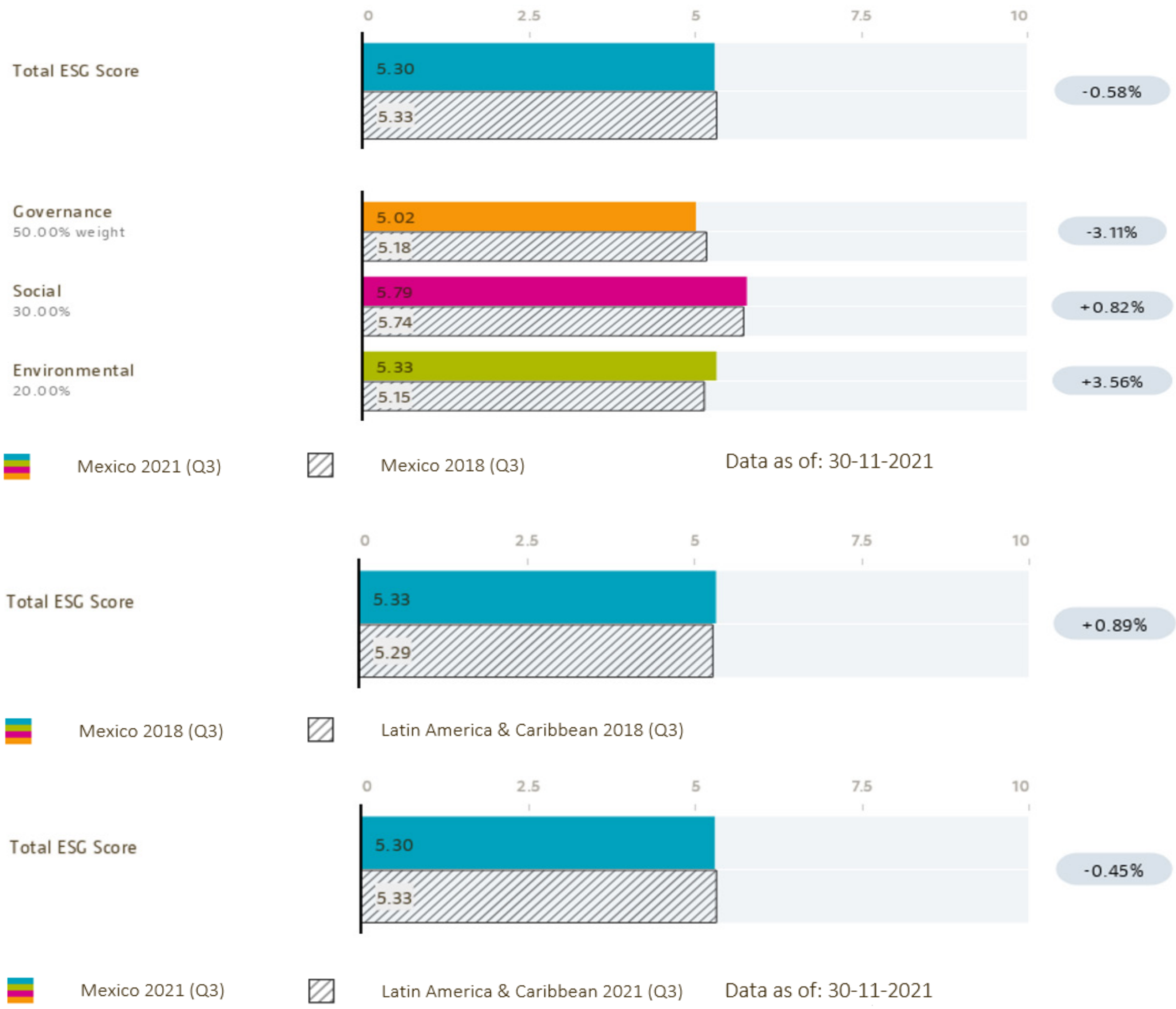
Mexico's sustainability performance: a mixed record

Since being elected in July 2018, Mexico's president Andres Manuel Lopez Obrador, or AMLO, has struggled to deliver on his various campaign promises. While Mexico's sustainability performance has remained stable during the first two years of AMLO's term, it began to deteriorate after mid-2020. This was largely due to the pandemic, which has been mishandled and has worsened pre-existing disparities such as poverty, leading to increased social and political tensions.

So far, AMLO's policy record is mixed; while he has been able to improve the social security and employment prospects for youth, he has failed on his promises to markedly curb high crime rates, influence the drug war and combat corruption. The latter remains the weakest ESG areas relative to peers, whereas globalization & innovation and regulation are notable strengths. A look at Figure 10 shows Mexico's overall ESG score is very close to the average score of its Latin American peers, with a marginally inferior performance in governance and a slightly superior track record in environmental and social areas.

10. Yale Center for Environmental Law & Policy: "Environmental Performance Index 2020".

Figure 10 | Mexico: AMLO with a mixed record in sustainability achievements



Source: Robeco
Data note: Latin America & Caribbean includes 23 developing and emerging economies.

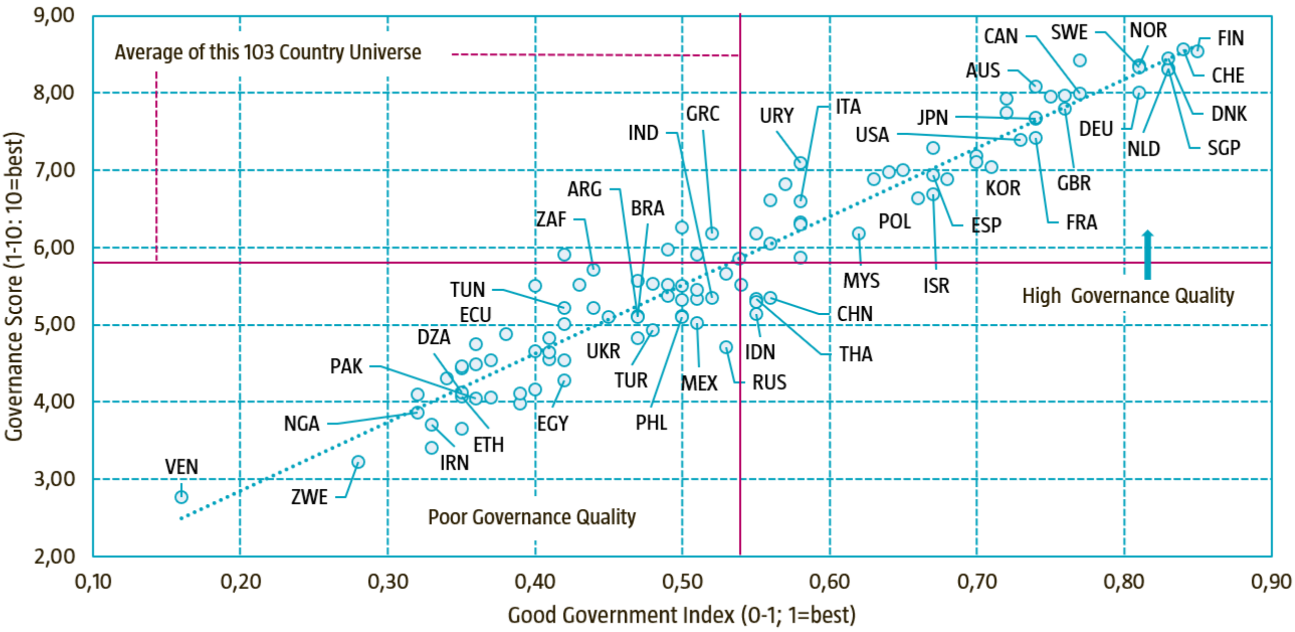
As in many other countries, the pandemic has increased poverty, inequality and gender gaps, pointing to a need to increase inclusiveness and raise living standards. This, however, will require boosting productivity, improving labor force skills, and enhancing the business and investment climate. To achieve the latter, Mexico will need to strengthen the quality of its institutions, intensify the fight against endemic corruption and crime and create a more stable political situation. Hence, progress on the governance front will be key to improving the country's overall ESG profile. It is in this area where AMLO has failed to make noticeable progress, as is evident in the moderate setback in Worldwide Governance Indicators scores since he took office in 2018 (see Figure 10). Of the six indicators, four (political stability, rule of law, regulatory quality and voice & accountability) saw declines, and only two (control of corruption and government effectiveness) have remained stable.

Proprietary rankings vs independent benchmarks

Governance measures closely linked to new government index

The governance score of the Robeco Country Sustainability Ranking October 2021 is closely interlinked with the 2021 Chandler Good Government Index (CGGI), as can be seen from the highly positive correlation (correlation coefficient r=0.96; see Figure 11). The CGGI is a novel ranking of governance quality and outcomes of countries that was developed by the Chandler Institute of Governance in Singapore. The index was published for the first time in April 2021 and seeks to measure the effectiveness and capabilities of governments in 104 countries globally (103 of which also included in our CSR), covering roughly 90% of the world's populations.[11]

Figure 11 | Governance scores closely linked with government quality index



Data source: Chandler Institute of Governance; Robeco
Data note: The Robeco governance scores are of October 2021. The Chandler Good Government Index is as of April 2021.

The close correlation between the CGGI and the Robeco governance score can be explained by the fact that both measures reflect countries' governance characteristics and strengths of institutional frameworks, crucial determinants for a country's prosperity. Good governance is essential for unlocking a nation's potential and for successful and sustainable economic and human development. It is therefore also a core element of the Robeco country sustainability ranking. In the top positions of both rankings, we find countries that are distinguished by their effective governments, solid institutions, low levels of corruption, reliable legal systems and political stability. Unsurprisingly, Finland is at the top of the 2021 CGGI ranking – the same country that is also heading the Robeco country sustainability ranking for October 2021. Conversely, countries like Venezuela and Zimbabwe which are struggling with governance, are found at the opposite end of both rankings, where states with very fragile conditions are located.

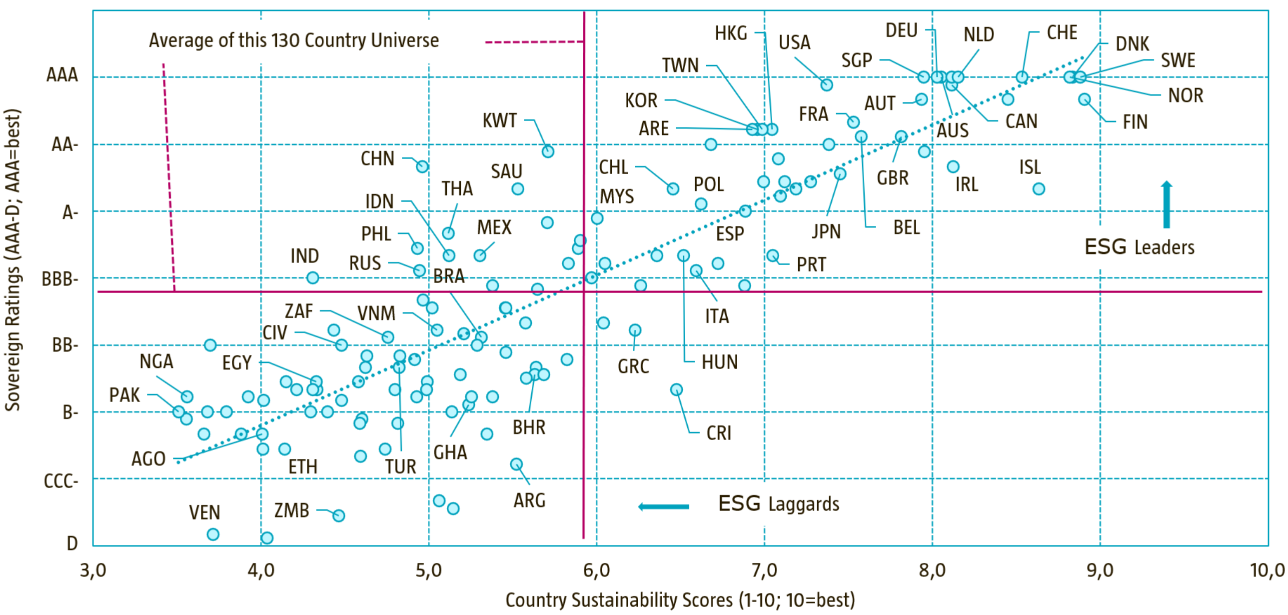
Country sustainability rankings vs. sovereign ratings and CDS

It is broadly accepted in financial markets that a nation's ability and willingness to honour its financial obligations is influenced not only by financial and macroeconomic variables but also by a wide range of ESG features. These include a country's political situation, social climate,

11. Chandler Institute of Government, Chandler Good Government Index, April 2021.

quality of governance, and environmental factors and are useful for obtaining a comprehensive assessment of a country's risk/reward pattern. The ESG risk factors cited above are also appearing more frequently as important reasons for sovereign rating changes by major rating agencies. It seems obvious that robust sustainability performance helps promote economic growth, contributes to healthy fiscal position and, ultimately, to a stronger sovereign credit profile in the long run. Moreover, the opposite is also true; institutional failures, social disparities and pronounced inequalities undermine political and macroeconomic stability. This is nicely shown in Figure 12, where a comparison of the Robeco country ESG scores and sovereign credit ratings display a highly positive correlation (correlation coefficient r=0.86).

Figure 12 | Robeco country ESG scores: Reflective of sovereign credit risk ratings



Data source: Fitch, Moody's, Standard & Poor's, Robeco

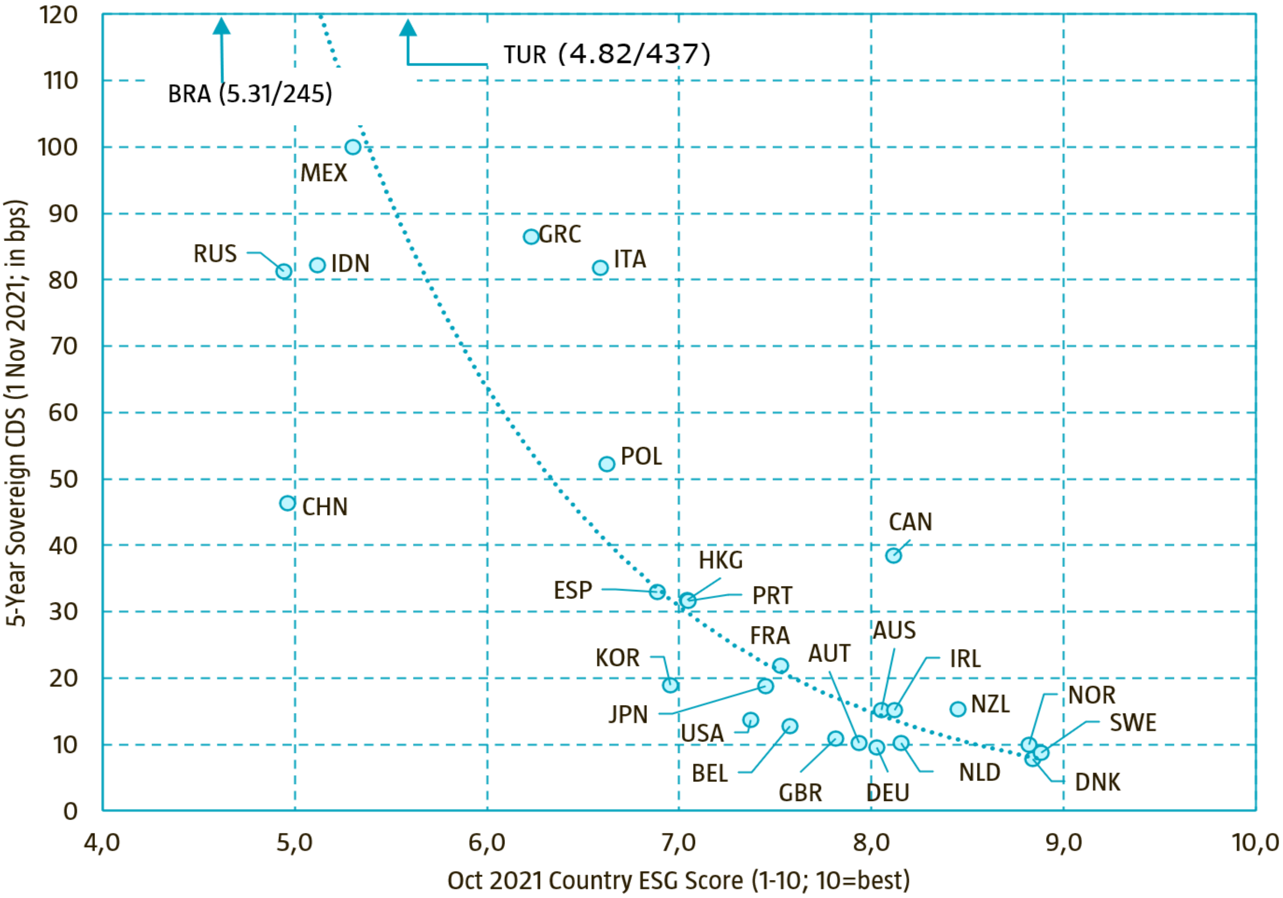
Data note: Sovereign ratings reflect the average of the three rating agencies; Sovereign credit risk ratings of end-October 2021; Robeco country sustainability scores as of October 2021.

Of course, there will always be exceptions. In the case of Japan, Spain and the UK, for example, the correlation holds well. In the case of Greece, Italy and Portugal, however, the sovereign credit ratings appear somewhat too conservative relative to their sustainability scores, suggesting the potential for an upgrade. On the other hand, China, India and Saudi Arabia enjoy sovereign ratings that seem stronger than implied by their rather poor sustainability profiles. Moreover, it is quite obvious that the ESG laggards, e.g., countries such as Ethiopia, Pakistan and Venezuela, all display pronounced shortcomings in various ESG aspects that represent significant impediments for sustainable economic development and also stronger sovereign creditworthiness.

Figure 13 displays a negative correlation between the country ESG score and the sovereign credit default swap (CDS) spread as a measure of a sovereign's default probability. It is evident, overall, that the CDS spread tends to decline as a country's ESG profile improves and vice-versa. This appears to be fairly straightforward as a stronger ESG profile supports a country's economic development and hence its creditworthiness, which in turn has a dampening effect on spreads and borrowing costs.

Countries above the trend line are those with a CDS spread that is too high relative to their ESG score. Likewise, those below the trend line are those whose CDS spreads are lower than what their ESG profile would suggest. In the case of China and Russia, one would expect a higher CDS spread in view of their rather poor sustainability scores, whereas in the case of Greece and Italy the CDS spread appears somewhat elevated compared with their respective ESG profiles.

Figure 13 | Robeco country ESG scores: well-aligned with sovereign CDS spreads



Data source: World Government Bonds, Robeco
Data note: The Robeco country sustainability scores are of October 2021. 5-year sovereign CDS spreads of 1 November 2021.

Apart from ESG factors, CDS spreads are, of course, also influenced by economic and financial data as well as market sentiment. For this reason, alignment of ESG scores and sovereign CDS data cannot be perfect and will differ among countries. Moreover, general patterns may vary considerably over time. ESG data and scores tend to be sticky and less frequently calculated than CDS data that is available daily. As a result, the latter may reflect the ups and downs in a country's condition more precisely at a given point in time. On the other hand, CDS spreads are more volatile and susceptible to speculation as well as market exaggerations which can sometimes result in a distorted perception of a country's underlying fundamentals. The existence of a close and negatively correlated relationship between country ESG scores and sovereign CDS spreads has also been confirmed by recent academic research.[12]

12. Benjamin Hübel, Friedrich-Alexander-Universität Erlangen-Nürnberg (FAU): "Do markets Value ESG Risks in Sovereign Credit Curves?"; Paper published under SSRN-id3501100, March 2020.
Meng Sun, University of Edinburgh Business School: "Environmental, social and governance (ESG) Risk integration into Sovereign Bond analysis"; B157069, Dissertation, October 2020.

Appendix A: Country sustainability framework

Ongoing monitoring of the underlying data and data providers and maintenance of the methodology used to construct any model is an integral part of ensuring its accuracy, completeness and ongoing predictive power. In the following pages, we provide our source data as well as the framework in which it is weighted and measured.

The current methodological framework shown in Table 1 comprises 40 indicators, which are combined into 15 criteria covering the three main ESG dimensions (environmental, social & governance).

The framework captures a broad set of relevant ESG factors with the ultimate aim of providing an assessment of whether a country's development in the E, S and G areas helps preserve a sovereign's long-term solvency.

The country sustainability assessment framework currently covers a universe of 150 countries, 23 of which are considered industrialized countries or advanced economies, and 127 emerging market and developing countries.

Table 1 | Robeco's Country Sustainability Framework

Indicator level For each country, numerous data series on a variety of ESG features are collected and summarized in 40 indicators. Each indicator gets a predefined weight and a relative score ranging from 1 to 10.		Criteria level The indicators are aggregated to 15 criteria, whereby each criterion is also assigned a predefined weight.	Dimension level Each dimension weight is the sum of the criteria weights within the respective dimension.	Country Sustainability Score The country score is the weighted sum of all standardized indicator scores.
> Environmental Performance Index	> Energy Trilemma Index	Environmental Perf. (5.0%)	Environmental (20%)	RobecoSAM's Country ESG Score
> Climate Risk Index > ND-GAIN Index	> World Risk Index	Environmental Risk (7.5%)		
> Natural Environment	> Environmental Quality	Environmental Status (7.5%)		
> Labor Force Participation Rate 55-64 > Retirement Age	> Old-Age Dependency Ratio 2050	Aging (7.5%)	Social (30%)	
> Health	> Education	Human Capital (5.0%)		
> Gender Inequality Index > Women, Business & Law Index	> Economic Inequality > GINI Coefficient	Inequality (5.0%)		
> Basic Human Needs > Human Development Index	> Children's Rights in the Workplace	Social Conditions (5.0%)		
> Inclusiveness > World Happiness Ranking	> Economic Decline & Poverty > Safety & Security	Social Unrest (7.5%)		
> Control of Corruption	> Corruption Perception Index	Corruption (10.0%)	Governance (50%)	
> Economic Globalization	> Global Innovation Index	Globalization & Innovation (5.0%)		
> Government Effectiveness > State Legitimacy	> Rule of Law	Institutions (10.0%)		
> Freedom in the World > Voice & Accountability	> Human Rights	Personal Freedom (5.0%)		
> Political Risk Assessment	> Political Risk Rating	Political Risk (10.0%)		
> External Intervention	> Political Stability / No Violence	Political Stability (5.0%)		
> Financial Development Index > Regulatory Quality	> Index of Economic Freedom	Regulation & Fin. Development (5.0%)		

Source: Robeco

Appendix B: Data sources

Environmental performance	Yale University; Environmental Performance Index	https://epi.envirocenter.yale.edu/
	World Energy Council/Oliver Wyman; Energy Trilemma Index	https://trilemma.worldenergy.org/
Environmental risk	Bündnis Entwicklung Hilft; World Risk Index	https://entwicklung-hilft.de/
	University of Notre Dame; ND-GAIN Index	https://www.nd.edu/Germanwatch;
	Global Climate Risk Index	https://germanwatch.org/en/cri
Environmental status	Social Progress Imperative; Environment (Component of SPI)	https:// www.socialprogressindex.com/
	Legatum Institute; Environmental Quality (Pillar of Prosperity Index)	https://www.prosperity.com/
Aging	ILOSTAT; Labor Force Participation Rate 55-64	https://ilostat.ilo.org/
	UN – Population Division; Old-Age Dependency Ratio	https://population.un.org/
	WB – Women, Business & the Law; Retirement Age	https://wbl.worldbank.org/
Human capital	Legatum Institute; Education (Pillar of Prosperity Index)	https://www.prosperity.com/
	Legatum Institute; Health (Pillar of Prosperity Index)	https://www.prosperity.com/
Inequality	Fund for Peace; Economic Inequality (Indicator of FSI)	http://fsi.fundforpeace.org/
	UNDP – Human Development Reports; Gender Inequality Index	http://hdr.undp.org/
	World Bank; World Development Indicators; GINI Coefficient	http://databank.worldbank.org/data/
	OECD; Income Distribution Database; GINI Coefficient	http://www.oecd.org/
	WB – Women, Business & the Law; Women, Business & the Law Index	https://wbl.worldbank.org/
Social conditions	Social Progress Imperative; Basic Human Needs (Component of SPI)	https://www.socialprogressindex.com/
	Global Child Forum/UNICEF; Children's Rights in the Workplace Index	https://www.globalchildforum.org/
	UNDP – Human Development Reports; Human Development Index	http://hdr.undp.org/
Social unrest	Fund for Peace; Economic Decline & Poverty (Indicator of FSI)	http://fsi.fundforpeace.org/
	Social Progress Imperative; Inclusiveness (Component of SPI)	https://www.socialprogressindex.com/
	Legatum Institute; Safety & Security (Pillar of Prosperity Index)	https://www.prosperity.com/
	Columbia University/SDSN; World Happiness Ranking	https://worldhappiness.report/ed/2019/
Corruption	Transparency International; Corruption Perception Index	https://www.transparency.org/
	World Bank; Control of Corruption (Worldwide Governance Indicator)	https://info.worldbank.org/governance/wgi/#home
Globalization & innovation	KOF/ETHZ; Economic Globalization (Dimension of Globalization Index)	https://kof.ethz.ch/
	WIPO; Global Innovation Index	https://www.wipo.int/
Institutions	World Bank; Government Effectiveness (Worldwide Governance Indicator)	https://info.worldbank.org/governance/wgi/#home
	World Bank; Rule of Law (Worldwide Governance Indicator)	https://info.worldbank.org/governance/wgi/#home
	Fund for Peace; State Legitimacy (Indicator of Fragile States Index)	http://fsi.fundforpeace.org/
Personal freedom	Freedom House; Freedom in the World Index	https://freedomhouse.org/
	Fund for Peace; Human Rights (Indicator of FSI)	http://fsi.fundforpeace.org/
	World Bank; Voice and Accountability (Worldwide Governance Indicator)	https://info.worldbank.org/governance/wgi/#home
Political risk	Euromoney Country Risk; Political Risk Assessment	http://www.euromoney.com/
	PRS Group; Political Risk Rating	http://www.prsgroup.com/
Political stability	Fund for Peace; External Intervention (Indicator of Fragile States Index)	http://fsi.fundforpeace.org/
	World Bank; Political Stability and Absence of Violence (Worldwide Governance Indicator)	https://info.worldbank.org/governance/wgi/#home
Regulation & financial development	IMF; Financial Development Index	https://data.imf.org/
	Heritage Foundation; Index of Economic Freedom	https://www.heritage.org
	World Bank; Regulatory Quality (Worldwide Governance Indicator)	https://info.worldbank.org/governance/wgi/#home

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